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9 **UNITED STATES DISTRICT COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION**
11

12 SECURITIES AND EXCHANGE
COMMISSION.

13 Plaintiff,

14 vs.

15 STEVE CHEN, ET AL.,
16 Defendants.
17

CASE NO. 2:15-cv-07425-RGK-GJS

**DEFENDANT STEVE CHEN'S
RESPONSE TO COMPLAINT AND
JURY DEMAND**

Crtrm.: 850

Assigned to Hon. R. Gary Klausner

1 Defendant Steve Chen (“Mr. Chen”), by and through his counsel of record,
2 hereby invokes his Fifth Amendment right not to be compelled to testify against
3 himself and responds to the Complaint of Plaintiff Securities and Exchange
4 Commission (“Plaintiff” or “SEC”), filed on September 22, 2015, as follows:

5 **JURISDICTION AND VENUE**

6 1. The allegations in ¶ 1 contain legal conclusions to which no response is
7 required. To the extent that a response is required, Mr. Chen invokes his Fifth
8 Amendment right not to be compelled to testify against himself and respectfully
9 declines to answer. Mr. Chen reserves the right to alter this response.

10 2. The allegations in ¶ 2 contain legal conclusions to which no response is
11 required. To the extent that a response is required, Mr. Chen invokes his Fifth
12 Amendment right not to be compelled to testify against himself and respectfully
13 declines to answer. Mr. Chen reserves the right to alter this response.

14 3. The allegations in ¶ 3 contain legal conclusions to which no response is
15 required. To the extent that a response is required, Mr. Chen invokes his Fifth
16 Amendment right not to be compelled to testify against himself and respectfully
17 declines to answer. Mr. Chen reserves the right to alter this response.

18 **SUMMARY**

19 4. The allegations in ¶ 4 contain legal conclusions to which no response is
20 required. To the extent that a response is required, Mr. Chen invokes his Fifth
21 Amendment right not to be compelled to testify against himself and respectfully
22 declines to answer. Mr. Chen reserves the right to alter this response.

23 5. The allegations in ¶ 5 contain legal conclusions to which no response is
24 required. To the extent that a response is required, Mr. Chen invokes his Fifth
25 Amendment right not to be compelled to testify against himself and respectfully
26 declines to answer. Mr. Chen reserves the right to alter this response.

27 6. The allegations in ¶ 6 contain legal conclusions to which no response is
28 required. To the extent that a response is required, Mr. Chen invokes his Fifth

1 Amendment right not to be compelled to testify against himself and respectfully
2 declines to answer. Mr. Chen reserves the right to alter this response.

3 7. The allegations in ¶ 7 contain legal conclusions to which no response is
4 required. To the extent that a response is required, Mr. Chen invokes his Fifth
5 Amendment right not to be compelled to testify against himself and respectfully
6 declines to answer. Mr. Chen reserves the right to alter this response.

7 8. The allegations in ¶ 8 contain legal conclusions to which no response is
8 required. To the extent that a response is required, Mr. Chen invokes his Fifth
9 Amendment right not to be compelled to testify against himself and respectfully
10 declines to answer. Mr. Chen reserves the right to alter this response.

11 9. The allegations in ¶ 9 contain legal conclusions to which no response is
12 required. To the extent that a response is required, Mr. Chen invokes his Fifth
13 Amendment right not to be compelled to testify against himself and respectfully
14 declines to answer. Mr. Chen reserves the right to alter this response.

15 10. The allegations in ¶ 10 contain legal conclusions to which no response
16 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
17 Amendment right not to be compelled to testify against himself and respectfully
18 declines to answer. Mr. Chen reserves the right to alter this response.

19 **THE DEFENDANTS**

20 11. The allegations in ¶ 11 contain legal conclusions to which no response
21 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
22 Amendment right not to be compelled to testify against himself and respectfully
23 declines to answer. Mr. Chen reserves the right to alter this response.

24 12. The allegations in ¶ 12 contain legal conclusions to which no response
25 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
26 Amendment right not to be compelled to testify against himself and respectfully
27 declines to answer. Mr. Chen reserves the right to alter this response.
28

1 13. The allegations in ¶ 13 contain legal conclusions to which no response
2 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
3 Amendment right not to be compelled to testify against himself and respectfully
4 declines to answer. Mr. Chen reserves the right to alter this response.

5 14. The allegations in ¶ 14 contain legal conclusions to which no response
6 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
7 Amendment right not to be compelled to testify against himself and respectfully
8 declines to answer. Mr. Chen reserves the right to alter this response.

9 15. The allegations in ¶ 15 contain legal conclusions to which no response
10 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
11 Amendment right not to be compelled to testify against himself and respectfully
12 declines to answer. Mr. Chen reserves the right to alter this response.

13 16. The allegations in ¶ 16 contain legal conclusions to which no response
14 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
15 Amendment right not to be compelled to testify against himself and respectfully
16 declines to answer. Mr. Chen reserves the right to alter this response.

17 17. The allegations in ¶ 17 contain legal conclusions to which no response
18 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
19 Amendment right not to be compelled to testify against himself and respectfully
20 declines to answer. Mr. Chen reserves the right to alter this response.

21 18. The allegations in ¶ 18 contain legal conclusions to which no response
22 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
23 Amendment right not to be compelled to testify against himself and respectfully
24 declines to answer. Mr. Chen reserves the right to alter this response.

25 19. The allegations in ¶ 19 contain legal conclusions to which no response
26 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
27 Amendment right not to be compelled to testify against himself and respectfully
28 declines to answer. Mr. Chen reserves the right to alter this response.

1 20. The allegations in ¶ 20 contain legal conclusions to which no response
2 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
3 Amendment right not to be compelled to testify against himself and respectfully
4 declines to answer. Mr. Chen reserves the right to alter this response.

5 21. The allegations in ¶ 21 contain legal conclusions to which no response
6 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
7 Amendment right not to be compelled to testify against himself and respectfully
8 declines to answer. Mr. Chen reserves the right to alter this response.

9 22. The allegations in ¶ 22 contain legal conclusions to which no response
10 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
11 Amendment right not to be compelled to testify against himself and respectfully
12 declines to answer. Mr. Chen reserves the right to alter this response.

13 23. The allegations in ¶ 23 contain legal conclusions to which no response
14 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
15 Amendment right not to be compelled to testify against himself and respectfully
16 declines to answer. Mr. Chen reserves the right to alter this response.

17 24. The allegations in ¶ 24 contain legal conclusions to which no response
18 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
19 Amendment right not to be compelled to testify against himself and respectfully
20 declines to answer. Mr. Chen reserves the right to alter this response.

21 **THE FRAUDULENT SCHEME**

22 25. The allegations in ¶ 25 contain legal conclusions to which no response
23 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
24 Amendment right not to be compelled to testify against himself and respectfully
25 declines to answer. Mr. Chen reserves the right to alter this response.

26 26. The allegations in ¶ 26 contain legal conclusions to which no response
27 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
28

1 Amendment right not to be compelled to testify against himself and respectfully
2 declines to answer. Mr. Chen reserves the right to alter this response.

3 27. The allegations in ¶ 27 contain legal conclusions to which no response
4 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
5 Amendment right not to be compelled to testify against himself and respectfully
6 declines to answer. Mr. Chen reserves the right to alter this response.

7 28. The allegations in ¶ 28 contain legal conclusions to which no response
8 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
9 Amendment right not to be compelled to testify against himself and respectfully
10 declines to answer. Mr. Chen reserves the right to alter this response.

11 29. The allegations in ¶ 29 contain legal conclusions to which no response
12 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
13 Amendment right not to be compelled to testify against himself and respectfully
14 declines to answer. Mr. Chen reserves the right to alter this response.

15 30. The allegations in ¶ 30 contain legal conclusions to which no response
16 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
17 Amendment right not to be compelled to testify against himself and respectfully
18 declines to answer. Mr. Chen reserves the right to alter this response.

19 31. The allegations in ¶ 31 contain legal conclusions to which no response
20 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
21 Amendment right not to be compelled to testify against himself and respectfully
22 declines to answer. Mr. Chen reserves the right to alter this response.

23 32. The allegations in ¶ 32 contain legal conclusions to which no response
24 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
25 Amendment right not to be compelled to testify against himself and respectfully
26 declines to answer. Mr. Chen reserves the right to alter this response.

27 33. The allegations in ¶ 33 contain legal conclusions to which no response
28 is required. To the extent that a response is required, Mr. Chen invokes his Fifth

1 Amendment right not to be compelled to testify against himself and respectfully
2 declines to answer. Mr. Chen reserves the right to alter this response.

3 34. The allegations in ¶ 34 contain legal conclusions to which no response
4 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
5 Amendment right not to be compelled to testify against himself and respectfully
6 declines to answer. Mr. Chen reserves the right to alter this response.

7 35. The allegations in ¶ 35 contain legal conclusions to which no response
8 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
9 Amendment right not to be compelled to testify against himself and respectfully
10 declines to answer. Mr. Chen reserves the right to alter this response.

11 36. The allegations in ¶ 36 contain legal conclusions to which no response
12 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
13 Amendment right not to be compelled to testify against himself and respectfully
14 declines to answer. Mr. Chen reserves the right to alter this response.

15 37. The allegations in ¶ 37 contain legal conclusions to which no response
16 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
17 Amendment right not to be compelled to testify against himself and respectfully
18 declines to answer. Mr. Chen reserves the right to alter this response.

19 38. The allegations in ¶ 38 contain legal conclusions to which no response
20 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
21 Amendment right not to be compelled to testify against himself and respectfully
22 declines to answer. Mr. Chen reserves the right to alter this response.

23 39. The allegations in ¶ 39 contain legal conclusions to which no response
24 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
25 Amendment right not to be compelled to testify against himself and respectfully
26 declines to answer. Mr. Chen reserves the right to alter this response.

27 40. The allegations in ¶ 40 contain legal conclusions to which no response
28 is required. To the extent that a response is required, Mr. Chen invokes his Fifth

1 Amendment right not to be compelled to testify against himself and respectfully
2 declines to answer. Mr. Chen reserves the right to alter this response.

3 41. The allegations in ¶ 41 contain legal conclusions to which no response
4 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
5 Amendment right not to be compelled to testify against himself and respectfully
6 declines to answer. Mr. Chen reserves the right to alter this response.

7 **FIRST CLAIM FOR RELIEF**

8 **Unregistered Offer and Sale of Securities**

9 **Violations of Section 5 (a) and (c) of the Securities Act**

10 **(against all Defendants)**

11 42. Mr. Chen incorporates his responses to paragraphs 1 through 41 as
12 though fully set forth herein.

13 43. The allegations in ¶ 43 contain legal conclusions to which no response
14 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
15 Amendment right not to be compelled to testify against himself and respectfully
16 declines to answer. Mr. Chen reserves the right to alter this response.

17 44. The allegations in ¶ 44 contain legal conclusions to which no response
18 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
19 Amendment right not to be compelled to testify against himself and respectfully
20 declines to answer. Mr. Chen reserves the right to alter this response.

21 45. The allegations in ¶ 45 contain legal conclusions to which no response
22 is required. To the extent that a response is required, Mr. Chen invokes his Fifth
23 Amendment right not to be compelled to testify against himself and respectfully
24 declines to answer. Mr. Chen reserves the right to alter this response.

SECOND CLAIM FOR RELIEF

Fraud in the Offer or Sale of Securities

Violations of Section 17(a) of the Securities Act

(against all Defendants)

46. Mr. Chen incorporates his responses to paragraphs 1 through 41 as though fully set forth herein.

47. The allegations in ¶ 47 contain legal conclusions to which no response is required. To the extent that a response is required, Mr. Chen invokes his Fifth Amendment right not to be compelled to testify against himself and respectfully declines to answer. Mr. Chen reserves the right to alter this response.

48. The allegations in ¶ 48 contain legal conclusions to which no response is required. To the extent that a response is required, Mr. Chen invokes his Fifth Amendment right not to be compelled to testify against himself and respectfully declines to answer. Mr. Chen reserves the right to alter this response.

THIRD CLAIM FOR RELIEF

Fraud in Connection with the Purchase or Sale of Securities

Violations of Section 10(b) of the Exchange Act and Rule 10b-5

(against all Defendants)

49. Mr. Chen incorporates his responses to paragraphs 1 through 41 as though fully set forth herein.

50. The allegations in ¶ 50 contain legal conclusions to which no response is required. To the extent that a response is required, Mr. Chen invokes his Fifth Amendment right not to be compelled to testify against himself and respectfully declines to answer. Mr. Chen reserves the right to alter this response.

51. The allegations in ¶ 51 contain legal conclusions to which no response is required. To the extent that a response is required, Mr. Chen invokes his Fifth Amendment right not to be compelled to testify against himself and respectfully declines to answer. Mr. Chen reserves the right to alter this response.

1 **PRAYER FOR RELIEF**

2 The prayer for relief contains legal conclusions and requests for relief as to
3 which no response is required.

4 **DEFENSES**

5 **Affirmative Defenses**

6 Without assuming any burden of proof that he would not otherwise bear
7 under applicable law, and without limitation as to any and all other affirmative
8 defenses that he may have and may assert in this action, and without waiving his
9 Fifth Amendment right not to be compelled to testify against himself, Mr. Chen
10 alleges the following affirmative defenses to the allegations set forth in the
11 Complaint.

12 **First Affirmative Defense**

13 **(Failure to State a Claim)**

14 The Complaint, and each of the purported claims against Mr. Chen, fail to
15 state a claim upon which relief can be granted.

16 **Second Affirmative Defense**

17 **(Lack of Scierter)**

18 Mr. Chen is not liable for the claims asserted against him because any alleged
19 conduct by Mr. Chen in this case was without scierter.

20 **Third Affirmative Defense**

21 **(Reliance on Accountants)**

22 Mr. Chen is not liable for the claims asserted against him because any alleged
23 conduct by Mr. Chen in this case was performed in good faith reliance upon
24 accountants.

25 **Fourth Affirmative Defense**

26 **(Reliance on Legal Professionals)**

27 Mr. Chen is not liable for the claims asserted against him because any alleged
28 conduct by Mr. Chen in this case was performed in good faith reliance upon legal

professionals.

Fifth Affirmative Defense

(Good Faith)

Mr. Chen is not liable for the claims asserted against him because Mr. Chen at all times acted in good faith.

Sixth Affirmative Defense

(Injunctive Relief Not Warranted)

Plaintiff's claim for injunctive relief is barred because there has been no violation of the Securities Act or the Exchange Act, and because there is no reasonable likelihood that any purported violation will be repeated. Plaintiff's injunctive relief claim is further barred because the adverse effects of an injunction far outweigh any benefit from an injunction.

Seventh Affirmative Defense

(Penalties Not Warranted)

Plaintiff's claim for penalties is barred because any alleged violation was isolated and/or unintentional.

Eighth Affirmative Defense

(Conduct by Third Parties)

Mr. Chen is not responsible in law or fact for any alleged false or misleading statements or omissions of material fact by others.

Ninth Affirmative Defense

(Public Disclosure)

The matters alleged to be the subject of misrepresentations and omissions were publicly disclosed or were in the public domain.

Tenth Affirmative Defense

(Lack of Causation)

Each claim for relief is barred because the harms alleged in the Complaint were not actually or proximately caused by any act or omission by Mr. Chen.

Eleventh Affirmative Defense
(Independent or Superseding Causes)

Each claim for relief is barred because the harms alleged in the Complaint resulted from the negligent, reckless or willful acts or omissions of others, which constitute independent intervening and superseding causes.

PRAYER

WHEREFORE, Mr. Chen prays that judgment in his favor be entered as follows:

1. That Plaintiff take nothing by reason of its Complaint and that judgment be rendered in favor of Mr. Chen;
2. That Mr. Chen be awarded expenses incurred in defense of this action; and
3. That Mr. Chen be granted such other and further relief as the Court deems appropriate.

JURY DEMAND

Mr. Chen requests a trial by jury on all aspects of this case so triable.

DATED: November 20, 2015

Paul S. Chan
Jeremy D. Matz
Kimberley M. Miller
Bird, Marella, Boxer, Wolpert, Nessim,
Drooks, Lincenberg & Rhow, P.C.

By: /s/ Kimberley M. Miller
Kimberley M. Miller
Attorneys for Defendant Steve Chen